

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

| | | | |
|---|--------------------------------|--|-------------------------|
| Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other | | Local Government Name Shelby Area District Library | County Oceana |
| Audit Date 2/28/06 | Opinion Date 5/30/06 | Date Accountant Report Submitted to State: 6/27/06 | |

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

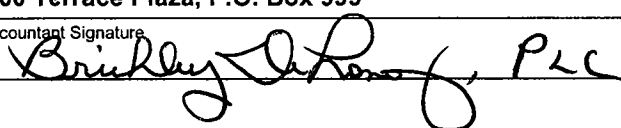
We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- | | |
|---|---|
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements. |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act. |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit. |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95). |

We have enclosed the following:

| | Enclosed | To Be Forwarded | Not Required |
|---|----------|-----------------|--------------|
| The letter of comments and recommendations. | | | ✓ |
| Reports on individual federal financial assistance programs (program audits). | | | ✓ |
| Single Audit Reports (ASLGU). | | | ✓ |

| | | | |
|---|-------------------------|------------------------|--------------------------|
| Certified Public Accountant (Firm Name) Brickley DeLong, PLC | | | |
| Street Address 500 Terrace Plaza, P.O. Box 999 | City Muskegon | State MI | ZIP 49443-0999 |
| Accountant Signature  | | Date 6/27/06 | |

Shelby Area District Library
Oceana County, Michigan

REPORT ON FINANCIAL STATEMENTS
(with required supplementary information)

February 28, 2006

Shelby Area District Library

TABLE OF CONTENTS

| | |
|--|--------|
| Management's Discussion and Analysis..... | i - iv |
| Independent Auditors' Report..... | 1 |
| Basic Financial Statements | |
| Balance Sheet—Statement of Net Assets | 2 |
| Statement of Revenues, Expenditures and Changes in Fund Balance—Statement of Activities | 3 |
| Statement of Fiduciary Assets and Liabilities..... | 4 |
| Notes to Financial Statements | 5 |
| Required Supplementary Information | |
| Budgetary Comparison Schedule—General Fund | 13 |

Brief Discussion of the Basic Financial Statements

This annual report consists of three parts: *management's discussion and analysis*, *the basic financial statements*, and *required supplementary information*. The basic financial statements include information that presents two different views of the Library.

- The first column of the financial statements includes information about the Library's General Fund under the modified accrual method of accounting. These financial statements focus on current resources and provide a detailed view of the Library's sources and uses of funds.
- The "Adjustments" columns of the financial statements represents adjustments necessary to convert the modified accrual statements to the government-wide financial statements under the full accrual method of accounting required for the year ended February 28, 2006.
- The last columns provide both long term and short term information about the Library's overall financial status. The "Statement of Net Assets" and the "Statement of Activities" provide information about the activities of the Library as a whole, and present a longer term view of the Library's finances.

The financial statements also include *notes* which explain some of the information in the financial statements and provide more detailed data. The statements are followed by a section of *required supplementary information* that further explains and supports the information in the financial statements.

Condensed Financial Information

A. Statement of Net Assets

The State of Net Assets presents information on all of the Library's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as an indicator of whether the financial position of the Library is improving or deteriorating. As of February 28, 2006, the Library's net assets totaled \$786,392. Current assets totaled \$163,819 and consisted of cash and receivables. Capital assets of \$644,882 include the Library's collection of materials less accumulated depreciation. Increases in current assets mirror the increase in unrestricted net assets.

Condensed Statement of Net Assets

| | 2006 | 2005 |
|----------------------------|------------|------------|
| Current assets | \$ 163,819 | \$ 112,599 |
| Capital assets | 631,783 | 644,882 |
| Total assets | 795,602 | 757,481 |
| Current liabilities | 9,210 | - |
| Net assets | | |
| Invested in capital assets | 631,783 | 644,882 |
| Unrestricted | 154,609 | 112,599 |
| Total net assets | \$ 786,392 | \$ 757,481 |

B. Statement of Activities

The information that follows reports key financial information in a condensed format. Amounts and totals reported are for all Library activities, including general operations, gifts received, and net assets, in order to give a complete picture.

After a restatement of \$9,111 for unrecorded compensated absences, the Library's net assets increased by \$38,022 during the 2006 fiscal year. The majority of the Library's support comes from property taxes, penal fines paid by Oceana County, library service contracts with local communities and support from the State of Michigan. These sources combined together increased by \$25,143 primarily because of additional support from local communities, some of whom are now levying their own property taxes to support the Library. Total expenses were comparable to the previous year. Depreciation expense represented 19% of total expenses.

Condensed Statement of Activities

| | 2006 | 2005 |
|----------------------------|------------|------------|
| General revenues | | |
| Property taxes | \$ 107,029 | \$ 103,536 |
| Intergovernmental revenues | 158,197 | 136,547 |
| Grants | - | 6,600 |
| Fines and foreitures | 2,620 | 1,987 |
| Investment earnings | 1,428 | 386 |
| Contributions | 23,680 | 26,155 |
| Other | 6,576 | 6,741 |
| Total revenues | 299,530 | 281,952 |
| Expenses: | | |
| Salaries and wages | 135,594 | 134,560 |
| Fringe benefits | 18,715 | 13,844 |
| Utilities | 8,384 | 7,778 |
| Depreciation | 49,172 | 46,275 |
| Other expenses | 49,643 | 56,252 |
| Total expenses | 261,508 | 258,709 |
| Change in net assets | 38,022 | 23,243 |
| Net assets - March 1 | 757,481 | 734,238 |
| Restatement at March 1 | (9,111) | - |
| Net assets - February 28 | \$ 786,392 | \$ 757,481 |

Analysis of Financial Statements

The Shelby Area District Library operates a General Fund, which serves as the Library's primary operating fund in which all transactions for day to day operation are recorded.

The fund balance of the General Fund increased \$51,022 because property taxes and support from local communities were higher than current expenditures. The ending fund balance of \$163,819 is equal to about eight months of expenditures.

The largest expenses of the Library are salaries and wages and related fringes, since the Library is a service organization which requires staff to provide the services. The fringe benefits include payroll taxes paid for all employees as well as retirement for all full-time and permanent part-time Library employees. At present the Library employs 11 people. The second largest expense for the Library is capital outlay for collection materials, which includes books, magazines, and audio-visuals materials. The third largest expense is utilities.

Library Budget Highlights

The following is a summary of the significant budget amendments for year ending February 28, 2006:

- Local intergovernmental revenues budget was increased from \$115,000 to \$124,000 due to higher than expected payments from local communities.

Significant budget to actual comparison highlights were as follows:

- Local intergovernmental revenues exceeded budgeted revenues by \$19,123. This was due to a higher than expected payments from local communities as Benona and Grant Townships are now both levying property taxes to support the Library.

Capital Assets

The only significant change in the library's capital assets was the acquisition of books and materials in the amount of \$34,885. Books and materials removed from the collections totaled \$37,040 and were all fully depreciated. The only other added capital asset was some new carpeting totaling \$1,188.

Long-Term Debt

At the end of the fiscal year, the Library had total debt outstanding of \$9,210 consisting entirely of compensated absences.

Anticipated Budget Factors and Currently Known Facts for 2007

The Library expects the next fiscal year to be consistent with fiscal year 2006. Penal fines, which represent the second largest source of revenues, continue to present the Library with uncertainty and state aid funding is being reduced which could represent less income from these sources. Increased taxable values from the Library District and Grant and Benona Townships' contract appropriations should have a positive impact on our current revenue budget and help relieve concern about penal fine income. Memorial gifts and Friends of the Library donations have been received early this budget year which indicate that those revenue lines are in good shape. The Library Endowment Fund at the Community Foundation for Oceana County continues to grow and the first distribution from the Library Endowment Fund will be used for expanding shelf space.

The Library has planned two significant maintenance expenditures; repainting the exterior of the building and improving lighting in the front and lawn area of the building. The book budget has been increased this year as the Library's concern about budgeted revenues has been alleviated from the past couple of years. The Library will continue to have a conservative approach to spending, but expects less pressure on fund balance now that the building addition and improvement projects have been completed. This gives the Library a good financial outlook for the future.

Contacting the Library's Financial Management

This financial report is designed to provide a general overview of the Library's finances for all those interested in them. Questions may be directed to Library Director, Sally Diepen at Shelby Area District Library, 189 Maple Street, Shelby, MI 49455.

BRICKLEY DELONG

CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITORS' REPORT

May 30, 2006

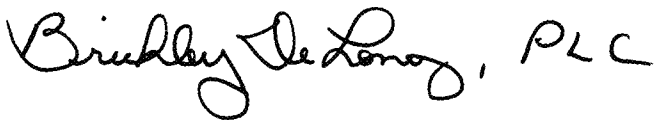
Board of Directors
Shelby Area District Library
Shelby, Michigan

We have audited the accompanying financial statements of the Shelby Area District Library as of and for the year ended February 28, 2006, which collectively comprise the Library's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Shelby Area District Library's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Shelby Area District Library as of February 28, 2006 and the changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis and budgetary comparison information on pages i - iv and 13 are not a required part of the basic financial statement but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.



Shelby Area District Library
BALANCE SHEET—STATEMENT OF NET ASSETS
February 28, 2006

| | Balance Sheet - Modified accrual | Adjustments | Statement of Net Assets - Full accrual |
|------------------------------------|--|-------------------|--|
| CURRENT ASSETS | | | |
| Cash and investments | \$ 135,955 | \$ - | \$ 135,955 |
| Receivables | | | |
| Property taxes | 14,935 | - | 14,935 |
| Other | 2,989 | - | 2,989 |
| Due from other governmental units | <u>9,940</u> | <u>-</u> | <u>9,940</u> |
| Total current assets | 163,819 | - | 163,819 |
| NONCURRENT ASSETS | | | |
| Capital assets, net | | | |
| Depreciable | <u>-</u> | <u>631,783</u> | <u>631,783</u> |
| Total assets | <u>\$ 163,819</u> | 631,783 | 795,602 |
| CURRENT LIABILITIES | | | |
| Compensated absences | \$ - | 9,210 | 9,210 |
| FUND BALANCE | | | |
| Unreserved | <u>163,819</u> | <u>(163,819)</u> | <u>-</u> |
| Total liabilities and fund balance | <u>\$ 163,819</u> | | |
| NET ASSETS | | | |
| Invested in capital assets | | 631,783 | 631,783 |
| Unrestricted | | <u>154,609</u> | <u>154,609</u> |
| Total net assets | | <u>\$ 786,392</u> | <u>\$ 786,392</u> |

The accompanying notes are an integral part of this statement.

Shelby Area District Library
**STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE—STATEMENT OF ACTIVITIES**
For the year ended February 28, 2006

| | Revenues and Expenditures - Modified accrual | Adjustments | Statement of Activities - Full accrual |
|---|---|-------------|--|
| REVENUES | | | |
| Property taxes | \$ 107,029 | \$ - | \$ 107,029 |
| Intergovernmental revenues | | | |
| State | 15,074 | - | 15,074 |
| Local | 143,123 | - | 143,123 |
| Fines and forfeitures | 2,620 | - | 2,620 |
| Investment earnings | 1,428 | - | 1,428 |
| Contributions | 13,476 | 10,204 | 23,680 |
| Other | 6,576 | - | 6,576 |
| Total revenues | 289,326 | 10,204 | 299,530 |
| EXPENDITURES | | | |
| Current | | | |
| Salaries and wages | 135,495 | 99 | 135,594 |
| Fringe benefits | 18,715 | - | 18,715 |
| Magazine and newspaper subscriptions | 3,150 | - | 3,150 |
| Operating supplies | 3,084 | - | 3,084 |
| Office supplies | 3,185 | - | 3,185 |
| Insurance and bonds | 5,349 | - | 5,349 |
| Repairs and maintenance | 6,457 | - | 6,457 |
| Utilities | 8,384 | - | 8,384 |
| Professional services | 6,702 | - | 6,702 |
| Contracted services | 979 | - | 979 |
| Memberships and dues | 7,784 | - | 7,784 |
| Telephone | 1,609 | - | 1,609 |
| Postage | 2,800 | - | 2,800 |
| Printing | 1,055 | - | 1,055 |
| Other | 7,489 | - | 7,489 |
| Capital outlay | 25,869 | (25,869) | - |
| Depreciation | - | 49,172 | 49,172 |
| Total expenditures | 238,106 | 23,402 | 261,508 |
| Change in fund balance—net assets | 51,220 | (13,198) | 38,022 |
| Fund balance—net assets at March 1, 2005, as restated | 112,599 | 635,771 | 748,370 |
| Fund balance—net assets at February 28, 2006 | \$ 163,819 | \$ 622,573 | \$ 786,392 |

The accompanying notes are an integral part of this statement.

Shelby Area District Library
STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES
Fiduciary Funds
February 28, 2006

| | |
|--------------------------|---------------------|
| | <u>Agency funds</u> |
| ASSETS | |
| Cash and investments | \$ <u>2,383</u> |
| LIABILITIES | |
| Deposits held for others | \$ <u>2,383</u> |

The accompanying notes are an integral part of this statement.

Shelby Area District Library
NOTES TO FINANCIAL STATEMENTS
February 28, 2006

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Shelby Area District Library (Library) have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the Library's accounting policies are described below.

Reporting Entity

The Library was established by a district library agreement between the Village of Shelby and Shelby Township pursuant to the District Library Establishment Act of the State of Michigan. The Library is governed by a six member Library Board. The Village of Shelby appoints three members and the Shelby Township Board appoints three. The Library is administered by a Library Director appointed by the Board. The Library is primarily funded through property taxes, Township contributions, fines, fees, state aid and local penal fines from the County.

Generally accepted accounting principles require that if the Library has certain oversight responsibilities over other organizations, those organizations should be included in the Library's financial statements. Since no organizations met this criteria, none are included in the financial statements.

Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the nonfiduciary activities of the Library. The Library only has governmental activities, which normally are supported by taxes and intergovernmental revenues. Separate financial statements are provided for governmental funds. Major individual governmental funds are reported as separate columns in the fund financial statements. Since the Library has only one governmental fund, no separate columns have been provided.

Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Library considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, unrestricted state aid, intergovernmental grants, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so they have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the Library.

Shelby Area District Library
NOTES TO FINANCIAL STATEMENTS—CONTINUED
February 28, 2006

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued

Measurement Focus, Basis of Accounting and Financial Statement Presentation—Continued

The Library reports the following major governmental fund:

The General Fund is the Library's primary operating fund. It accounts for all financial resources of the Library, except those required to be accounted for in another fund.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989 generally are followed in the government-wide financial statements to the extent that those standards do not conflict with or contradict guidance of the Government Accounting Standards Board.

When both restricted and unrestricted resources are available for use, it is the Library's policy to use restricted resources first, then unrestricted resources as they are needed.

Assets, Liabilities and Net Assets or Equity

Deposits and Investments

The Library's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

The Library reports its investments in accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*. Under this standard, certain investments are valued at fair value as determined by quoted market prices or by estimated fair values when quoted market prices are not available. The standard also provides that certain investments are valued at cost (or amortized cost) when they are of short-term duration, the rate of return is fixed, and the Library intends to hold the investment until maturity.

The Library has adopted an investment policy in compliance with State of Michigan statutes. Those statutes authorize the Library to invest in obligations of the United States, certificates of deposit, prime commercial paper, securities guaranteed by United States agencies or instrumentalities, United States government or federal agency obligation repurchase agreements, bankers acceptances, state-approved investment pools and certain mutual funds.

Receivables and Payables

All property tax receivables are shown net of an allowance for uncollectibles.

Shelby Township processes property taxes. The Library does not collect taxes for any other taxing units. Taxes are levied on each December 1 on the taxable valuation of property (as defined by state statutes) located in the Local Governmental Unit as of the preceding December 31. Uncollectible real property taxes as of the following March 1 are turned over by the Library to the County for collection. The County advances the Library all these delinquent real property taxes. The delinquent personal property taxes remain the responsibility of the Library. The Library recognizes all available revenue from the current tax levy. Available means collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period (60 days).

The 2004 state taxable value for real/personal property of the Library totaled approximately \$73,255,000. The ad valorem taxes levied consisted of 1.4678 mills for the Library's general operations. These amounts are recognized in the General Fund.

Shelby Area District Library
NOTES TO FINANCIAL STATEMENTS—CONTINUED
February 28, 2006

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued

Capital Assets

Capital assets, which include buildings, library material and equipment are defined by the government as assets with an initial, individual cost of more than \$1,000 and an estimated useful life in excess of two year with exception of library books, periodicals, etc. which are all recorded as capital assets. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Buildings, library material and equipment is depreciated using the straight-line method over the following estimated useful lives:

| <u>Assets</u> | <u>Years</u> |
|----------------------------------|--------------|
| Buildings and improvements | 10-50 |
| Equipment | 5 |
| Library books, periodicals, etc. | 5-10 |
| Furniture and fixtures | 10 |

Compensated Absences

Library employees are granted vacation and sick leave in varying amounts based on length of service. Accumulated vacation leave must be taken no later than one year after it is earned. Upon termination, employees are paid for unused vacation at their current rates. Sick leave pay does not vest with the employee and is payable only in the event of absences due to illness. All vacation pay is accrued when incurred in the government-wide financial statements. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements.

Fund Balance and Net Assets

Reservations and restrictions represent amounts that are not appropriable or legally segregated for a specific purpose.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures.

Shelby Area District Library
NOTES TO FINANCIAL STATEMENTS—CONTINUED
February 28, 2006

NOTE B—STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgetary Information

Annual budgets, as required by state statutes, are adopted on a basis consistent with generally accepted accounting principles. All annual appropriations lapse at fiscal year end.

The Library follows these procedures in establishing the budgetary information provided in the financial statements:

- a. Prior to the first day of February, the Library Director submits to the Library Board a proposed operating budget for the year commencing the following March 1. The operating budget includes proposed expenditures and the means of financing them.
- b. Public hearings are conducted to obtain taxpayer comments.
- c. Not later than the first Tuesday in February, the budget is legally enacted through passage of a resolution.
- d. Supplemental appropriations, when required to provide for additional expenditures, are matched by additional anticipated revenues or an appropriation of available fund balance and must be approved by the Library Board. All appropriations lapse at year end.

The appropriated budget is prepared by fund and individual revenue and expenditure line item. The legal level of budgetary control is the individual line item. The Library Board made several supplemental budgetary appropriations throughout the year.

NOTE C—DEPOSITS AND INVESTMENTS

Interest rate risk. The Library does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit risk. State law limits investments in commercial paper and corporate bonds to the two highest classifications issued by nationally recognized statistical rating organizations (NRSROs). The Library has no investment policy that would further limit its investment choices.

Concentration of credit risk. The Library does not have a concentration of credit risk policy. Concentration of credit risk is the risk of loss attributed to the magnitude of the Library investment in a single issuer, by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized.

Custodial credit risk – deposits. In the case of deposits, this is the risk that in the event of a bank failure, the Library's deposits may not be returned to it. As of February 28, 2006, \$38,237 of the Library's bank balance of \$138, 237 was exposed to custodial credit risk because it was uninsured and uncollateralized.

Shelby Area District Library
NOTES TO THE FINANCIAL STATEMENTS—CONTINUED
February 28, 2006

NOTE C—DEPOSITS AND INVESTMENTS—Continued

Custodial credit risk – investments. The Library does not have a custodial credit risk policy for investments. This is the risk that, in the event of the failure of the counterparty, the Library will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party.

Foreign currency risk. The Library is not authorized to invest in investments which have this type of risk.

NOTE D—CAPITAL ASSETS

Capital asset activity for the year ended February 28, 2006 was as follows:

| | Balance March 1, 2005 | Additions | Deductions | Balance February 28, 2006 |
|---|-----------------------------|--------------------|-------------|---------------------------------|
| Capital assets, being depreciated: | | | | |
| Library books, videos, audios, etc. | \$ 572,300 | \$ 34,885 | \$ 37,040 | \$ 570,145 |
| Buildings and improvements | 704,076 | 1,188 | - | 705,264 |
| Furniture, fixtures and equipment | 83,130 | - | - | 83,130 |
| Total capital assets, being depreciated | 1,359,506 | 36,073 | 37,040 | 1,358,539 |
| Less accumulated depreciation: | | | | |
| Library books, videos, audios, etc. | 438,662 | 26,776 | 37,040 | 428,398 |
| Buildings and improvements | 247,800 | 11,086 | - | 258,886 |
| Furniture, fixtures and equipment | 28,162 | 11,310 | - | 39,472 |
| Total accumulated depreciation | 714,624 | 49,172 | 37,040 | 726,756 |
| Capital assets, net | \$ <u>644,882</u> | \$ <u>(13,099)</u> | \$ <u>-</u> | \$ <u>631,783</u> |

Shelby Area District Library
NOTES TO THE FINANCIAL STATEMENTS—CONTINUED
February 28, 2006

NOTE E—LONG-TERM DEBT

Summary of Changes in Long-Term Liabilities

The following is a summary of long-term liabilities activity for the Library for the year ended February 28, 2006.

| | Balance March 1, 2005 | Additions | Reductions | Balance February 28, 2006 | Due within one year |
|----------------------|-----------------------------|-----------------|-----------------|---------------------------------|------------------------|
| Compensated absences | \$ <u>9,111</u> | \$ <u>9,802</u> | \$ <u>9,703</u> | \$ <u>9,210</u> | \$ <u>9,210</u> |

NOTE F—OTHER INFORMATION

Risk Management

The Library is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; and natural disasters for which the Library carries commercial insurance. Liabilities in excess of insurance are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. There have been no losses in excess of insurance in the prior three years.

NOTE G—DEFERRED COMPENSATION PLAN

The Library offers all of its full-time employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The Plan permits the full-time employees to defer a portion of their salary until future years. The Library contributed approximately \$3,700 for the year ended February 28, 2006, which represents 3.5 percent of covered wages. The deferred compensation is not available until termination, retirement, death, or unforeseeable emergency.

The Plan has created a trust for the exclusive benefit of the Plan's participant and beneficiaries under rules provided in Internal Revenue Code Section 401(f).

NOTE H—PRIOR PERIOD ADJUSTMENT

The Library's beginning net assets were restated for compensated absences not recorded in the prior year.

| | |
|-------------------------------------|-------------------|
| Net assets at February 28, 2005 | \$ 757,481 |
| Compensated absences | <u>(9,111)</u> |
| Net assets at February 28, restated | <u>\$ 748,370</u> |

Shelby Area District Library
NOTES TO THE FINANCIAL STATEMENTS—CONTINUED
February 28, 2006

NOTE I—RECONCILIATION OF FUND FINANCIAL STATEMENTS TO GOVERNMENT-WIDE FINANCIAL STATEMENTS

Total fund balance - governmental funds \$ 163,819

Amounts reported for governmental activities in the
Statement of Net Assets are different because:

Capital assets used in governmental activities are not current
financial resources and are not reported in the governmental
fund.

| | | |
|--------------------------|------------------|---------|
| Cost of capital assets | \$ 1,358,539 | |
| Accumulated depreciation | <u>(726,756)</u> | 631,783 |

Compensated absences in the governmental activities are not
due and payable in the current period and are not reported in
the governmental funds. (9,210)

| | |
|---|-------------------|
| Net assets of governmental activities in the Statement of Net Assets | \$ <u>786,392</u> |
|---|-------------------|

Net change in fund balances - total governmental funds \$ 51,220

Amounts reported for government activities in the
Statement of Activities are different because:

Governmental funds report outlays for capital assets as
expenditures; in the Statement of Activities, these costs are
depreciated and amortized over their estimated useful lives.

| | | |
|----------------------|---------------|----------|
| Depreciation expense | \$ (49,172) | |
| Capital outlay | <u>25,869</u> | (23,303) |

Contributions of capital assets are recorded as revenues in the
Statement of Activities, but not in the governmental funds. 10,204

Compensated absences are reported on the accrual method in
the Statement of Activities and reported as expenditures when
financial resources are used in the governmental funds. (99)

| | |
|---|-------------------------|
| Change in net assets of governmental activities | \$ <u><u>38,022</u></u> |
|---|-------------------------|

REQUIRED SUPPLEMENTARY INFORMATION

Shelby Area District Library
Required Supplementary Information
BUDGETARY COMPARISON SCHEDULE
General Fund
For the year ended February 28, 2006

| | Original budget | Final budget | Actual | Variance with final budget - positive (negative) |
|--------------------------------------|--------------------|-----------------|------------|---|
| REVENUES | | | | |
| Property taxes | \$ 104,000 | \$ 104,000 | \$ 107,029 | \$ 3,029 |
| Intergovernmental revenues | | | | |
| State | 10,900 | 10,900 | 15,074 | 4,174 |
| Local | 115,000 | 124,000 | 143,123 | 19,123 |
| Grants | 2,000 | 2,000 | - | (2,000) |
| Fines and forfeitures | 2,000 | 2,000 | 2,620 | 620 |
| Investment earnings | 400 | 400 | 1,428 | 1,028 |
| Contributions | 13,000 | 13,000 | 13,476 | 476 |
| Other | 6,000 | 6,000 | 6,576 | 576 |
| Total revenues | 253,300 | 262,300 | 289,326 | 27,026 |
| EXPENDITURES | | | | |
| Current | | | | |
| Salaries and wages | 137,000 | 138,000 | 135,495 | 2,505 |
| Fringe benefits | 20,500 | 20,500 | 18,715 | 1,785 |
| Magazine and newspaper subscriptions | 3,300 | 3,300 | 3,150 | 150 |
| Operating supplies | 3,000 | 3,000 | 3,084 | (84) |
| Office supplies | 3,500 | 3,500 | 3,185 | 315 |
| Insurance and bonds | 6,000 | 6,000 | 5,349 | 651 |
| Repairs and maintenance | 7,000 | 11,000 | 6,457 | 4,543 |
| Utilities | 11,000 | 11,000 | 8,384 | 2,616 |
| Professional services | 6,500 | 6,500 | 6,702 | (202) |
| Contracted services | 2,000 | 2,000 | 979 | 1,021 |
| Memberships and dues | 6,000 | 6,000 | 7,784 | (1,784) |
| Telephone | 4,000 | 4,000 | 1,609 | 2,391 |
| Postage | 3,000 | 3,000 | 2,800 | 200 |
| Printing | 1,000 | 1,000 | 1,055 | (55) |
| Other | 9,200 | 10,200 | 7,489 | 2,711 |
| Capital outlay | 30,300 | 33,300 | 25,869 | 7,431 |
| Total expenditures | 253,300 | 262,300 | 238,106 | 24,194 |
| Net change in fund balance | \$ - | \$ - | 51,220 | \$ 51,220 |
| Fund balance at March 1, 2005 | | | 112,599 | |
| Fund balance at February 28, 2006 | | | \$ 163,819 | |